

27. Even basic services may be enhanced by the merger. For example, bilingual skills have enabled SBC to publish directories in Spanish, while Ameritech does not yet publish any Spanish speaking directories anywhere in region. Ameritech has considered producing Spanish language directories in Chicago, and SBC's skills could be quite useful. These skills could also improve the quality of customer service Ameritech provides to its Spanish speaking customers, while Ameritech's experience in such languages as Polish could be of use to SBC.

28. The new SBC will be able to support a virtual customer service center. By having customers and local sites in four U.S. time zones, and across the globe, the new entity will be able to service customers' needs on a 24 hour a day basis, regardless of where they are located. For example, a customer in England can call with a billing question at 2:00 a.m. English time, which is 8:00 p.m. Chicago time, to talk to a customer service representative. Ameritech has not, as a stand alone company, had the base of customers or geographic scope to warrant these investments. In addition, over time, the new SBC will have uniform best practices customer care techniques across the globe, ensuring quality and availability of service.

29. The merger will enhance Ameritech's cellular roaming service capability by expanding our wireless reach to major markets in the Southwestern United States and on the East and West coasts. The expanded geography and consolidated mobile service support systems will allow for enhanced mobile security without the need for "PIN"

numbers and other unpopular security measures. The expanded geography will also improve Internet access, which will now be available on a more national basis.

30. Many new products that SBC and Ameritech have in test or in development today, such as ADSL, could be brought to market faster and less expensively if they were developed by a single team. Ameritech began testing its DSL service in October 1996. It launched its DSL service in Ann Arbor, Michigan in late 1997, has since expanded the service to Wheaton, Illinois and Royal Oak, Michigan, and has stated broad expansion goals for the service (i.e., 70 percent of homes passed). Other examples include long-distance and internet services. SBC is currently developing an IP/Virtual Private Network product, which Ameritech can utilize in the new organization. These cost savings can be used to fund other new service developments and other strategic opportunities. Services that currently go undeveloped because of high start-up costs will roll out to customers because the larger number of potential users for such services will support additional initial development activities. Services can be more extensively deployed to a broader base of customers more rapidly than as a stand alone company. The companies can also avoid duplicating many of the same steps -- hardware and software testing, market trials, and rollout development -- associated with deploying the same product offering. The new services will expand the range of different packages of services for customers of the new SBC. For example, once we receive interLATA relief we will be able to provide seamless mailbox-to-mailbox messaging between cities,

states and regions. Furthermore, as customers become more mobile and move their homes and offices, they will enjoy the same high level of customer service and quality products, regardless of their location.

V. Ameritech has previously considered a significant CLEC strategy out-of-region, but had concluded it could not do that as a stand-alone company

31. Ameritech has no plans to become an out-of-region CLEC and, absent the merger, would not do so. Four to five years ago, Ameritech considered a variety of options, the most serious of which was a launch of a Competitive Access Provider (CAP, the precursor to a CLEC), in St. Louis. At the time, the primary market for CAP services was local wholesale transport purchased by long distance carriers. None of the IXCs were willing to commit to buy our transport services prior to launching the service, although they often did this for MFS, Teleport, and others. Our reasons for electing not to pursue CAP opportunities at that time included such factors as the initial operating losses, significant investment requirements, high valuations for buying existing properties relative to how Ameritech was valued, difficulties in persuading long distance carriers to buy services from Ameritech out-of-region, and lack of materiality.

32. In addition to Ameritech Cellular's planned bundled offering to wireless customers in St. Louis (see Osland Affidavit), Ameritech unsuccessfully undertook a resold business service offering out-of-region to its large business customers. It successfully sold the service to only one customer, and it is no longer actively pursuing additional customers. The resale offering was launched in the fourth quarter of 1997 with

United Airlines (UAL). Ameritech resells 398 lines in California, 86 lines in Texas, and 118 lines in New York to UAL. As of June 25, 1998, the resold local service business for large customers has been capped at the existing customer base (UAL). The project rollout was halted because it was not achieving the desired numbers of customers and because the gross margins on reselling local access to large customers (which often had already negotiated volume contracts with local carriers) were too small to continue the effort.

33. Several factors have prevented Ameritech from pursuing CLEC opportunities on a large scale. First, Ameritech does not have the human resources necessary to pursue all of its other growth initiatives and material CLEC acquisitions. Ameritech is staffing new business units, providing employees for our international affiliates, supporting our Internet service launch, and constantly managing and upgrading our core business activities.

34. Second, such acquisitions would unfairly and negatively penalize Ameritech shareowners. Wall Street values the company largely on an earnings model, in which it measures how rapidly Ameritech is growing earnings and whether or not we are meeting analysts' earnings estimates. This differs from the asset valuation models used to value WorldCom, many of the CLECs, and most Internet Services and on-line businesses. The earnings-based valuation model generally penalizes Ameritech for investing in opportunities that dilute earnings in the short term, regardless of their long term outlook. All of the large CLEC options Ameritech might pursue would result in

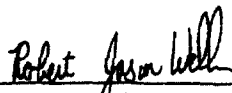
substantial dilution in earnings for many years. That dilution—potentially as much as 10-25% of our earnings—would have a significant negative impact on our stock price. We are not alone in this concern. Two other RBOCs that have pursued aggressive dilutive investments have already spun off those businesses—AirTouch and Media One—out of concern that their stock prices did not reflect the value of the growth initiatives, since the business as a whole was largely valued on an earnings multiple.

35. Third, Ameritech recognized that there were many capabilities and services we were not yet providing to our customer base. Ameritech had the choice of investing in developing these capabilities to pursue in-region opportunities, or investing in expanding our footprint. Our senior management concluded we could create more value and advance our strategies by expanding our investments to serve our base, rather than by geographic expansion as a CLEC. Ameritech instead decided to develop our PCS footprint; implement Digital Cellular (CDMA); market additional investments in our local exchange business; and invest in our cable, security, long distance, and Internet businesses, as well as expanding our international footprint.

36. Ameritech was not prepared to pursue a national or global CLEC strategy on its own. Ameritech recognized that others were pursuing competitive strategies in the marketplace, but our business units were focused on different, less dilutive avenues for growth and value creation. Even in partnership with others, Ameritech concluded that it could not accept the dilution of a "national/local strategy". Only through this merger is it possible for Ameritech to pursue this opportunity, with stronger cash flow, earnings

momentum from the merger, and the combined resources—people, business processes, and customers—of the combined company. The merger provides the efficiencies which can fund the short and medium term dilution, until the competitive launch becomes a contributor to earnings.

I declare under penalty of perjury that the foregoing statements are true and correct.



Robert Jason Weller

Sworn and subscribed before me

this 21 of July, 1998



NOTARY PUBLIC

~~My~~ commission expires November 31, 2002
My Commission Expires: _____

Pursuant to 47 C.F.R. §§ 1.743(c), 1.913(c), 5.54(c), the preceding document is a copy of the original signed affidavit, which was filed as an attachment to Exhibit 2 to the Form 490 applying for the Commission's consent to transfer control of Part 22 licenses held by Detroit SMSA Limited Partnership from Ameritech Corporation to SBC Communications Inc. That Form 490 was filed concurrently with this application.

AFFIDAVIT OF PAUL G. OSLAND

STATE OF ILLINOIS)
) SS:
COUNTY OF COOK)

PAUL G. OSLAND, being duly sworn, deposes and says:

1. My name is Paul G. Osland and I am Director of Corporate Strategy at Ameritech. The purpose of this affidavit is to explain the background and the current status of Project Gateway. Project Gateway was a defensive strategy initiated to test the viability of offering local service (on a resale basis), together with a variety of other features and services on a bundled basis, to existing residential cellular customers of Ameritech in St. Louis, Missouri.

2. I have been employed by Ameritech or its predecessors for nineteen years. From 1979-1985, I worked at Indiana Bell in a number of operational assignments. From 1985-1992, I worked at Ameritech Services in various marketing and planning assignments. In 1993, as a part of Ameritech's transformation into a business organized around customer segments, I was named Vice President of Strategic Marketing for Ameritech Long Distance Industry Services (ALDIS). In 1995, I was named Vice President of Marketing for the same unit. ALDIS' responsibility is to serve the approximately 150 long distance carriers that purchase products from Ameritech. In 1997, I was named Director of Corporate Strategy within

Ameritech's Corporate Strategy and Development group. I am a graduate of DePauw University in Greencastle, Indiana with a degree in Economics.

3. In my current assignment as a Corporate Strategy Director, I provide support for the planning efforts of several business units including Ameritech Cellular, the unit responsible for our St. Louis wireless business and the Project Gateway proposal. During Ameritech Cellular's formulation of that proposal, I met with the project leaders on numerous occasions to provide support and advice.

4. Project Gateway was developed by Ameritech Cellular primarily as a defensive strategy in response to a perception in early 1997 that other wireless competitors in St. Louis—such as AT&T, MCI, Sprint PCS and Nextel—were planning to offer local service to cellular subscribers as part of a bundling strategy which would add local and long distance, and perhaps other services, to their wireless offerings. In essence, Project Gateway proposed a marketing initiative whereby Ameritech Cellular would seek to bundle resold services with its wireless product to protect its cellular customer base in the face of substantial emerging competition. The business plan supporting the proposal was built on resale and did not assume the use of any Ameritech network facilities. At its core, Project Gateway was a discrete and limited initiative designed to protect the value of Ameritech's cellular business in St. Louis against erosion caused by the anticipated introduction of bundled services offerings by wireless competitors in that market.

5. The Telecommunications Act of 1996 and other regulatory developments (including the FCC's PCS auctions) fostered an increasingly competitive environment in the St. Louis cellular market. That environment manifested itself with the introduction of the AT&T, Sprint PCS and Nextel wireless services in 1997. That new competitive entry, along with the contemporaneous filings by AT&T, Sprint and MCI (which was reselling SBC's cellular service) for CLEC certification in Missouri, caused Ameritech Cellular to review its marketing strategy in St. Louis. Project Gateway emerged from that review and recommended a bundled cellular/local exchange offering in St. Louis as part of an effort to minimize losses to the new wireless providers, who seemed prepared to offer similar service packages.

6. Project Gateway was initially intended as a proposed offering to Ameritech Cellular's existing residential and small business wireless customers in St. Louis. In July 1997, issues with system interfaces and development were identified in the small business segment. As a result, the scope of the proposed offering was reduced to targeting only Ameritech's existing residential cellular subscribers in St. Louis, who represented less than 50% of its cellular customer base in that market.

7. Project Gateway did not assume any facilities-based wireline local service as part of its bundled services proposal and required no use of existing Ameritech wireline facilities. Its business plan and financial projections were based exclusively on the resale of Southwestern Bell's local exchange service. In addition, Project Gateway's proposed service packages were priced to attract cellular custom-

ers desiring a complement of value-added features. The proposed offering never assumed any material impact on residential customers who did not want wireless service as part of a bundle. Consequently, while the Project Gateway proposal included a local service and long distance package as one of its five bundled options, the pricing of that option standing alone was not designed to appeal to Southwestern Bell's local exchange subscribers in St. Louis nor would that option have supported a viable business plan.

8. As part of the planning phase for Project Gateway, Ameritech Cellular started an employee user trial of the bundled services and systems on January 26, 1998. By the end of March, there were approximately 390 employees and their families in St. Louis participating in the trial. The trial identified problems in a number of different areas. First, the bill format—which was based on the existing cellular bill—was confusing and difficult for existing customers to understand. Second, the pricing plan, which was designed as a postalized rate, provided value to some customers but limited value to others. The overall discount that customers received was greatest when they purchased local, long distance and cellular, but dropped off significantly as the number of services and features decreased (particularly with long distance and cellular). Third, increased competition in St. Louis was already starting to place greater than anticipated downward pressure on rates for both cellular and long distance service, thus reducing the economic attractiveness of some of the packages for consumers and undercutting the business assumptions supporting

the project. Fourth, performance during the trial was hindered somewhat by order processing errors.

9. The financial prospects for Project Gateway were diminished by the delay past the third quarter of 1997 due to operational problems, reduction in the scope of the proposed offering (from residential and small business to residential only) and challenges in finalizing the proposed service packaging and rates. Even under the proposal's original assumptions, Ameritech Cellular anticipated a net income loss for the first three years and a projected free cash flow loss through the fifth year.

10. The rollout of Project Gateway is on hold. The reason the project is on hold is that the merger agreement created several different Project Gateway scenarios that were not in the best interest of our customers or our shareholders. The first concern is that of Ameritech Cellular's incurring financial losses from the project for the foreseeable future even though there is a substantial probability (at least 50%) that the St. Louis property will be sold to satisfy antitrust and other regulatory requirements. The second concern is that this bundled offering may not be desirable to potential buyers given projected losses and the need for significant additional cash infusions, thereby limiting the number of interested parties willing to bid for the property and potentially lowering the price for the property. Lastly, if Ameritech were to roll out the service only to have the new owner discontinue the offering, customer confusion and inconvenience would likely result.

11. In addition to the merger related concerns, the need to address operational issues also facilitated the decision for the project to be placed on hold. These issues included changing the bill format to be more user friendly (which would take approximately 4-6 months) and expanding the pricing plans to increase the number of cellular customers to whom we can deliver attractive offerings. Additional work was also deemed necessary in order to correct order processing errors, and to train Southwestern Bell technicians and Ameritech sales and service representatives.

12. A separate and important operational issue also contributed to the decision to place the project on hold. Ameritech Cellular had begun to convert its St. Louis wireless system to digital service, a major undertaking to enhance the performance and acceptance of cellular service. Continuing the digital rollout and implementing a bundled service offering simultaneously would be extremely challenging. The network and IT side of the business, as well as the sales and marketing end, would have had difficulty supporting two distinctly different marketing programs.

13. Finally, the Ameritech bundled offering has become a lower priority since the new PCS entrants have not offered a bundled services offering to date, as originally anticipated as a part of Project Gateway.

14. The decision to put the trial on hold was solely and unilaterally reached by Ameritech.

I declare under penalty of perjury that the foregoing statements are true and correct.

Paul G. Osland
Paul G. Osland

Sworn and subscribed before me

this 2nd of July, 1998

Catherine Laakko
NOTARY PUBLIC



My Commission Expires: 3/10/2002

Pursuant to 47 C.F.R. §§ 1.743(c), 1.913(c), 5.54(c), the preceding document is a copy of the original signed affidavit, which was filed as an attachment to Exhibit 2 to the Form 490 applying for the Commission's consent to transfer control of Part 22 licenses held by Detroit SMSA Limited Partnership from Ameritech Corporation to SBC Communications Inc. That Form 490 was filed concurrently with this application.

AFFIDAVIT OF FRANCIS X. PAMPUSH

WASHINGTON)
) SS:
DISTRICT OF COLUMBIA)

FRANCIS X. PAMPUSH, being duly sworn, deposes and says:

I. Introduction

1. My name is Francis X. Pampush. I am Director of Economic and Policy Studies at Ameritech Corporation. My business address is 35th Floor, 30 South Wacker Drive, Chicago, Illinois 60606.

2. I earned a Bachelor of Arts degree in economics from Miami University in Oxford, Ohio in 1976. In 1988, I received a doctorate degree in economics from the University of North Carolina at Chapel Hill, where my dissertation was on telecommunications pricing issues. I have also earned the professional designation of Chartered Financial Analyst from the Association of Investment Management and Research. I have taught economics at the University of North Carolina at the undergraduate level and economics and finance at North Carolina State University and Georgia State University at the MBA level.

3. During my studies at the University of North Carolina, I was also employed at the Research Triangle Institute as a research economist, working

primarily with the Department of Energy and various investor-owned electric utilities. From 1982 to 1991, I was employed by BellSouth Corporation in various regulatory and planning positions. From 1991 to 1996, I was a consultant with Southern Engineering Company, where my work involved providing economic analysis and counsel to industries in network industries emerging into competitive markets, such as telecommunications and electricity.

4. I have held my position at Ameritech since May 1996. My duties are to provide economic counsel on a variety of public interest, policy and business issues. As part of my responsibilities, I oversee or coordinate the analysis and reporting of competitive information that is used by Ameritech both internally and in public forums at the state and federal levels. I have represented Ameritech before the Federal Communications Commission (the "Commission") on the issue of competitive analysis. In fulfilling my competitive analysis responsibilities, I use existing Ameritech reports and I also have prepared for my own use specific reports on the competitive situation. As part of my job, I continuously assess the market and regulatory circumstances in the Ameritech states.

5. The purpose of my testimony is to describe the nature and extent of local exchange competition that Ameritech faces in its five state service territory of

Illinois, Indiana, Michigan, Ohio, and Wisconsin.¹ My market focus is on the land-line local exchange business.

6. Section II provides a snapshot of the competitive situation in the local exchange business in the Ameritech service territories. The review describes the situation with total service resale ("TSR") as well as facilities-based competition. The major conclusion is that competitors have successfully obtained customers by both the resale and facilities-based method.

II. Competition in Local Exchange Services

A. Summary of Competitors

7. As of May 1998, 231 telecommunications carriers had obtained certification to provide competing local exchange service in one or more of Ameritech's in-region states.² As of May 1998, Ameritech had signed interconnection agreements with 201 competing providers of local exchange service. At present, 175 of the agreements have been approved by state commissions. To the best of Ameritech's knowledge, approximately 50 companies are actually engaged in some type of local exchange competitive activity (either offering retail service or whole-

¹ Ameritech's service territory covers about 25 percent of the five-state area, but contains about 72 percent of the state access lines.

² This does not include agreements with Ameritech affiliates.

sale elements) or are building facilities to offer such services.³ Attachment A lists the firms that are active in each state in the region, and based on historical growth, more are expected.

8. Attachment A shows that the active competitors include integrated telecommunications providers such as WorldCom/MCI/Brooks/MFS/ UUNet and AT&T/TCG/TCI that are international in scope. The list also includes resellers such as USN Communications and Millennium that are national or regional in scope. Some of the providers, such as QST, are pure wholesalers or "carriers' carriers." Others, such as Winstar, provide both wholesale (transport) services and retail services (both TSR and facilities-based). The active firms range from the small, home-grown (Phone Michigan) to the multi-nationals (AT&T/TCG/TCI). The firms use a variety of entry methods to provide suites of retail exchange and exchange access voice services, data services and (in some cases) wholesale transport services.

B. Resale Competition

9. At least thirty-seven of the 50 active CLECs offer some local exchange telephone service by reselling Ameritech services that are purchased at an

³ The list of active CLECs is derived from Ameritech provisioning data (e.g., unbundled loops, end-off integration trunks or resold lines), from press releases or Internet web site statements of the companies themselves or from the trade press.

avoided-cost discount.⁴ As of May 1998, these competitors were reselling over 635,000 lines region wide, an increase of 473 percent over year-ago levels. This increase occurred despite the widely-publicized decision by AT&T to stop marketing (but to continue selling) lines. With the exception of Indiana, the geographic coverage of resold lines is almost complete throughout the Ameritech five-state region. The ubiquity of the resold lines demonstrates that nearly every Ameritech customer, outside of Indiana, has available at his or her neighborhood wire center at least one, and sometimes several, alternative providers of resold local exchange services.

10. The resale of the ILEC's retail services at avoided-cost discounts is not just an initial entry strategy. For example, USN Communications, Inc. is building a business case on a resale strategy. As of last February, the Chicago-based firm said it had sold almost one-quarter million lines.⁵ Millennium is another firm that is operating in the region on a pure resale basis.

11. Resale competition is included in this review because it is an important form of local competition. The resale of Ameritech lines has an important disciplining effect on the local market segment. First, there is the price aspect. The

⁴ In Chicago, 13 entrants resell local service. See, Description of the Transaction, Public Interest Showing and Related Documents (Public Interest) at Table 6.

⁵ "USN Communications Sells 220,000 Lines," Newsbytes, February 17, 1998.

wholesale discount varies somewhat from state to state, and service by service, but in Ameritech's region, over most all services, it averages about 20 percent. Accordingly, resellers can and do undercut Ameritech retail rates, even after covering marketing and billing costs. Second, resellers can combine resold Ameritech lines with other Ameritech services or with services from third parties (e.g., cable TV, Internet access, long-distance) to create unique competitive packages. Such creative marketing and packaging competition is clearly a consumer benefit.

12. Finally, resellers fill an informational role; their marketing efforts demonstrate that there are numerous firms from which customers can select service and thus create an overall awareness that competitive alternatives are available. Other firms, including facilities-based entrants, benefit from the spillover effect that reseller marketing can have to educate the consumer as to the existence and capabilities of new providers. Accordingly, resellers play an important role in the development of the competitive telecommunications market that inures to the benefit of both consumers and other competitive entrants.

C. Facilities-based Competition

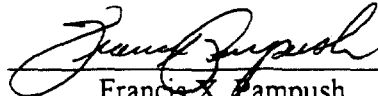
13. To date, at least 20 companies in the Ameritech-served region provide local exchange, exchange access, or wholesale elements (*e.g.*, rights of way, transport, or switching services) over their own facilities. The growth of facilities-based

exchange access service can be seen by end-office integration trunks.⁶ According to the data provided by Mr. Appenzeler, Ameritech now provides (as of June 22, 1998) over 180,000 EOI trunks. Ameritech also provides over 94,000 unbundled loops. In addition, the facilities-based CLECs operate (or are expected to be operating by year-end) over 120 switches in the region. The switches include Nortel DMS 100's and 500's and Lucent 5ESS's, the same switches used by any major telecommunications carrier including Ameritech.

14. As of July 1, 1998, CLECs have co-located their equipment in more than 260 wire centers in the Ameritech region, or about 23 percent of the wire centers. Co-location in these wire centers permits co-located CLECs to access about 63 percent of all Ameritech-served business lines and over 50 percent of all Ameritech-served residential lines, exclusive of the potential customers that can be reached via a direct connection to the CLEC's own network. And today, CLECs have backbone networks of over 5,000 route miles, covering the most dense areas of the local exchange market. CLECs therefore can access their primary customer target (business customers) while economizing on hard asset deployment.

⁶ End-office integration trunks connect CLEC switches to Ameritech tandem offices (or end-offices) for purposes of exchanging traffic. Each trunk group is expressed as a DS-O (64 kbps) equivalent.

I declare under penalty of perjury that the foregoing statements are true and correct.


Francis X. Campush

Sworn and subscribed before me

this 21 of July, 1998


NOTARY PUBLIC

My Commission Expires: 10/14/99